

A new framework for Technical Actuarial Standards

Hymans Robertson LLP's response to the Financial Reporting Council's (FRC's) November 2014 consultation document on changes to the framework for Technical Actuarial Standards (TASs).

Introduction and summary of key concerns

We support, in principle, both the consolidation of the three current generic Technical Actuarial Standards (TASs) into one document (TAS100), and the extension of the scope of the TASs to all actuarial work. We note, however, a strong sense amongst actuaries that they are continuing to learn how best to apply the current generic TASs, but they do work as intended by the FRC. Consequently, we suggest that there is no immediate benefit to existing users in consolidating the generic TASs, or insisting that TAS 100 provisions be used for any actuarial work which is not currently in scope (recognising that it is the TAS 100 document that itself extends the scope).

We also encourage the FRC, and other JFAR members to avoid any unintended consequences that might restrict the ability of actuaries (and, in due course, non-actuaries) to apply the TASs in a proportionate way that ensures they benefit users without undue increases in cost or the length of actuarial communications. For example, we have some concerns around potential detriment to users of actuarial information arising from such issues as:

- A transitional proposal that is unnecessarily complex and therefore unduly costly, owing to an unspecified period where the current TAS framework applies to some actuarial work but the proposed new framework to the remainder, even where the work is fundamentally the same in nature;
- Some apparent new restrictions or additional requirements in TAS100 that we understand to be unintended consequences arising from the drafting process to date (broadly, the transfer of only the boxed text in the three current generic TASs);
- The potential difficulty in meeting the proposed new requirements to report all material judgements made and the checks and controls applied to data, set against the need to avoid obscuring material information with the immaterial; and
- The three ISAP1 principles on third-party assumptions, margins for adverse deviations and compulsory inclusion of sensitivities appear more like rules than principles and are inconsistent with the approach to the TASs to date. We believe that consistency with ISAP1 has already been achieved in respect of the latter two requirements by the draft TAS100 principles on neutrality (3.5), description of measures (5.5) and communicating material uncertainty (5.7). The requirement to identify and indicate the impact of 'unreasonable' third-party assumptions is discussed in detail in our response to the relevant consultation question.

We have some concern that, as a result of the above issues, users may conclude that there is an unnecessary compliance cost associated with getting work done by actuaries. Similarly, they may feel that actuaries are providing additional information not to inform clients' decisions, but to limit the possibility of future professionalism criticism or protect against possible arguments that *material* information was omitted. Where there are non-actuarial alternative suppliers for the work (and the extension of scope is largely to areas where users are not compelled to use actuaries), users may choose them without having regard to quality. Until such time as alternative suppliers are also compelled to follow the TASs, this may result in a reduction or inconsistency in the quality of work users receive – non-actuaries will not have to comply with the standards, indicate where the standards would have required a different approach or further information be provided, or even mention that such standards exist.

On the following pages we provide further comment on specific questions in the consultation. If you wish to follow up any points in this response, please in the first instance contact me at my email address below.

Yours faithfully,

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Response to individual consultation questions

Proposals for the FRC's actuarial standards framework

Q3.1 Do you have any comments on the draft *Framework for FRC Actuarial Standards*?

The FRC's Reliability Objective

Section 3 of the draft Framework sets out the FRC's *Reliability Objective*. The use of the possessive, in the title for this section, in paragraph 3.2, and also in the statement of the Purpose of TAS 100 implies that this is a strategic objective of the FRC itself, and not an explicit requirement for actuaries. The existing TASs, however, also include a statement (in A.1.2 of each) that '*the purpose of this standard is to assist the achievement of the Reliability Objective ...*'. This has created an ambiguity as to whether the Reliability Objective is just a goal of the FRC, or is also a direct responsibility for actuaries to meet. This interpretation would lead to the possibility that a piece of actuarial work could comply with all the relevant individual principles of the various TASs, but still somehow be non-compliant overall, because it was separately judged to fall short of the Reliability Objective in some way. Assuming this is not the FRC's intention, it would be helpful if the FRC could make it explicit, in one or both of the Framework and TAS 100 documents, that:

- the Reliability Objective is the FRC's own target for the quality of actuarial work; and
- actuarial work can only be deemed non-TAS compliant by identification of one or more relevant principles within the TASs that are judged not to have been met.

If any party felt that a piece of actuarial work, whilst technically compliant, somehow fell short of the standards expected of an actuary, we believe that should be a professional matter addressed under the Actuaries' Code, or other IFoA professional standards.

Reserved and required work

The existing Scope and Authority of Technical Actuarial Standards document divides actuarial work that falls within its scope into three categories - Required, Reserved and 'all other'. This allows the FRC, and hence actuaries and their clients, to take different approaches to departures from the TASs for these different types of work. The new framework and the blanket approach to any work determined as actuarial do not appear to allow this flexibility: in particular, the ability for those commissioning work that is neither Reserved nor Required to instruct the actuary to depart from specified requirements of the TASs. This may lead to clients concluding that they should involve non-actuaries in order to get similar work done at lower cost, which, in turn, may mean a reduction in quality, should it be carried out by firms or individuals not subject to any quality standards. For example, much actuarial work involves membership or policyholder data. The new TAS framework effectively imposes a requirement for actuaries to check that data, regardless of the willingness of the user to take responsibility for its accuracy. This may be perceived by the user to have little or no value if they believe, rightly or wrongly, in the quality of that data. Actuaries subject to TAS 100 would at least be required to draw the user's attention to the resulting uncertainty and give an indication of the potential impact on the advice or information.

Q3.2 Do you have any comments on our proposal to withdraw and archive the existing *Scope & Authority*?

Regardless of whether a distinction continues between Required, Reserved or Other actuarial work, there should be no need to retain the Scope and Authority document, once the transition is complete.

Q.3.3 Do you have any comments on our proposed approach to the Significant Considerations documents?

We agree with the approach proposed, although we disagree to some extent with the assertion these documents are now used much less. There remain particular sections of the Significant Considerations documents that continue to be very helpful, particularly to those charged with assisting colleagues on addressing TAS compliance, and for areas of work that are less commonly carried out. Furthermore, for actuaries that have not

used the TASs to date, the adoption of TAS 100 will be much more like the original introduction of the TASs in 2009 to 2011. Similarly, if the reach of TAS 100 is extended to non-actuaries, the Significant Considerations documents may help readers understand the thinking behind the principles. We suggest that it would be worthwhile gathering feedback from practitioners on any content of the existing documents that should be included in either TAS 100, the replacement Specific TASs or further guidance.

Scope of TAS 100: principles for Actuarial Work

Q4.1 Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree, please explain why.

In principle yes, although the assertion presumes there is currently a significant amount of actuarial work that is either being performed or communicated to a lesser standard than that imposed by TAS 100. Also, TAS 100 can only improve such sub-standard work to the extent that it applies to those delivering that actuarial work; initially this will only be members of the IFoA and, perhaps, non-actuaries working in teams with actuaries where their employer mandates TAS 100 compliance (e.g. joint teams of actuarial and non-actuarial investment consultants).

Non-actuaries delivering actuarial work will not generally be compelled to improve the quality of it, nor indicate whether or not it complies with TAS 100, nor even communicate that such actuarial standards exists. There is only likely to be a benefit to users when any relevant regulators require such work to comply with TAS 100, notwithstanding any FRC encouragement for wider compliance in the TAS 100 itself. We assume that JFAR members will have this in mind, but, as yet, there is no indication when this might happen. A long interval between actuaries and other providers of similar work adopting TAS 100 might even result in some actuarial work migrating to non-actuaries due to the perception or reality of lower costs for users.

For example, some ALM work will currently be delivered by actuaries who also have a reasonable understanding of both the longevity risks and the complexities of historic UK defined benefit design. The extension of scope might mean that users opt instead for this work to be delivered by non-actuarial investment specialists who have no such experience, nor even an obligation to disclose the consequent limitations of their modelling. This may in turn result in a reduction in the overall quality of such work, so that some users of actuarial work may lose out until a level playing field is achieved. This may particularly be the case for smaller pension schemes and sponsors who will typically only wish to pay for simpler modelling. Does the FRC accept this risk as part of the greater good of extending the scope of the TASs?

Q4.2 Do you agree with the proposed definition of actuarial work? If not please provide reasons and suggest an alternative approach.

We sympathise with the authors of the exposure draft and recognise the difficulty in arriving at a definition which deals with the scenarios mentioned in 4.8, i.e. those carrying out the work avoiding compliance by representing actuarial work as not actuarial, or presenting work as actuarial when it is not clear that it is (presumably to increase the perceived credibility of the work without the effort of actually doing anything actuarial). We have a concern that, as currently drafted, the second requirement opens up a third scenario: that the user argues that they were entitled to treat the work as actuarial, because they took the way it was presented to imply that it was, even though no one could reasonably argue that the work involved met the test in the first requirement. This leaves user and actuary to debate that entitlement, possibly via subsequent litigation, and it is not clear to us where the burden of proof would then lie. We suggest the following amended definition:

Actuarial Work

Work

- (1) which involves the exercise of judgement and where the principles and/or techniques of actuarial science are central; or
- (2) which, in the context of their purpose and objectives in requesting the work, the users are reasonably entitled to treat as actuarial work, because it is presented as actuarial, whether expressly or by implication.

Where it is not otherwise clear (for example, the fulfilment of a statutory or legal responsibility), the “context of the users’ purpose and objectives in requesting the work” should be established in advance of work commencing to avoid it being debated after the event. It is likely that most actuaries / actuarial firms are already defining the scope of any material pieces of work with their clients as part of agreeing fees, timescales etc. so this should not be difficult to achieve. We note that the final section of E.8 states “Other individuals and entities may also be required to comply with TAS 100 by the user of the work or by relevant regulators”. This is the first indication that it is the user of the work who will define whether the work is to be considered actuarial work and subject to TAS 100. If this is intended then it should be explained alongside the definitions of actuarial work elsewhere.

Although in many cases it should be clear, it will be important to note that actuaries (or non-actuaries) are not expected to decide on behalf of the user whether the work they are delivering is actuarial work. The risk is that actuaries / non-actuaries could spend a disproportionate amount of time on this. For example: a corporate treasury department of a large multi-national company employ 30 individuals, two of whom are actuaries who joined two years ago. The two actuaries help provide financial forecasts using models established over many years and assumptions determined by an audit committee. The output is significant and used for decision-making. They are crunching numbers (in the same way as ten other members of the team) rather than providing actuarial output, although it could also be regarded as actuarial work because of the modelling techniques involved. They have no ability to influence the choice of models or to vary the established process. Are the actuaries subject to TAS 100 in respect of this work? The other team members are not subject to TAS 100 until such times as other Regulators adopt it (or similar quality assurance requirements are imposed). Could the users of the forecasts later claim that the addition of the actuaries to the corporate treasury team was taken by them to mean they could place extra reliance on the results?

Finally, as another example of the care that will need to be taken, a colleague who has carried out some Enterprise Risk Management work for clients in the banking industry remarked that the explanatory note included in the Consumer Credit (Early Settlement) Regulations 2004² states explicitly that an *actuarial formula* is used to calculate rebates to borrowers when they settle debts earlier than required. It is debatable whether the first test of the definition of actuarial work is met as the calculation makes use of compound interest but has no contingent probabilities involved and there appears to be no judgement to be applied; the use of the term “actuarial” in the legislation might reasonably lead to users of the information that the work was actuarial, however.

Q4.3 Do you agree with the analysis of different areas of work in Appendix E?

The examples are useful to some extent, but we think it would be helpful to add some specific instructions to some of the less clear-cut examples and include a few more non-standard situations. For example, for E.16, we suggest that it be made explicit that it is therefore the responsibility of the actuary performing the CRO role to exercise professional judgement to determine which of their activities meet the test of the definition of actuarial work.

In relation to other specific examples, we suggest that:

² <<http://www.legislation.gov.uk/ukSI/2004/1483/note/made>>

- E.20 to E.23 be reviewed for consistency with APS X2, if this has not already been done; and
- E.8 and E.24 should cover the situation where a user requests TAS 100 compliance, even though the actual work involved does not meet the judgement/actuarial science test
- An example of an acceptable departure would be helpful in a situation where it is less clear cut. Some examples are suggested throughout this response.

As noted in our response to Q4.2, the examples introduce the concept that for non-actuaries it is open to the user to effectively define whether the work is actuarial, by insisting on TAS 100 compliance. If this is the intention, it should be made clearer in the definition of actuarial work.

It would be useful to include examples that involve pension scheme advice to corporate clients such as scheme benefit design, employer debt or mergers/acquisitions work.

TAS 100: Principles for Actuarial Work

Before considering the specific questions, we note that appropriate application of the TASs relies almost entirely on the correct interpretation of the definition of *users*: this is key to understanding the *purpose*, affects the decision as to whether *actuarial work* is even being carried out, and is needed to correctly apply *materiality* and *proportionality* judgements in the right context. Ironically, the position of the glossary at the rear of TAS 100, (and the position of U in the alphabet, although we do not suggest that this is the FRC's responsibility) means that the definition of users is the very last item in TAS 100.

We note that the bracketed phrase (*at the time of writing*) has been removed from the definition of *users* that was included in the generic TASs. Further, the definition of *communication* in TAS 100 does not in turn link to a separate definition of *aggregate report* that refers to a piece of work in relation to a decision taken by a user. In the existing TASs, these three definitions worked together to limit the users to those specifically making one or more decisions (or discharging a specific statutory obligation). This, in turn, limits what is material and must be covered in communications. The simplification in TAS100 may unintentionally extend the definition of users, particularly given the extension of scope to all actuarial work, and beyond work where the users are straightforward to identify and limited in number. Some readers might ascribe intent to this change, however, and expect TAS-compliant work to serve the needs of multiple stakeholders.

Q5.1 Do you agree with the proposed high-level principles?

We have concerns over the requirement to communicate all material judgements to users. The volume of judgements that actuaries make in the course of their work; perhaps up to 100 or so for a significant actuarial projects such as a funding valuation. Even restricting the requirement to those judgements that are material may significantly increase the length of some communications. For example,

- the final sentence in section 5.6 of the consultation document (*judgement is needed in following standards*) suggest that the actuary's judgement that a TAS principle is immaterial might itself be a material matter. This creates a dilemma for actuaries. Do they take the option not to report immaterial departures (under *Disclosure* in the Compliance section of TAS 100) or follow the requirement to report all material judgements (under the *Judgement* principle)? Given that the test of this judgement will often be done with hindsight, it will be understandable if actuaries err on the side of caution in balancing their employer's risk management objectives with the needs of the users of actuarial work; and
- as for any skilled occupation, experienced practitioners may not always be conscious of all the material judgements they make. This might encourage the inclusion in templates of standard lists of judgements that are common in various types of actuarial work.

On the other hand, actuaries may also be aware of legal advice that for certain types of actuarial work, particularly when providing statutory certification of a monetary amount, it is not always in the users' interests for all material judgements to be disclosed. For example, advice provided by a QC in 2000 to the Institute of Actuaries³ on S.67 certification includes:

7.1 Should actuaries include in the certificate additional information relevant to their opinion as to the effect of the modification, such as legal advice received or assumptions used?

7.1.1 From the trustees' point of view an unqualified certificate, without setting out any assumptions in it, is most satisfactory. Since the actuary has to express his own opinion, there is an obvious risk of challenge if a stated basis for the certificate turns out to be wrong.

Whilst the QC's advice does refer specifically to the contents of the certificate, and not any accompanying communications, we are concerned that a requirement to communicate all material judgements may substantially increase the likelihood of challenge to amounts certified by actuaries, given that parties affected will be aware of the requirement that all such judgements had to be disclosed.

Data

Q5.2 Do you agree with the proposed provisions in TAS 100 on data?

Before looking at the provisions themselves, we note that the definition of data extends beyond membership data, assets and scheme rules to wider matters of fact such as legislation, regulatory guidance and knowledge of the user(s) and their requirements for the work. The provisions, however, appear to be written primarily with the first sort of data in mind.

2.1 Data shall be relevant to the entity

Appendix D of the consultation document states that provision 2.1 was included for consistency with ISAP1 (paragraph 2.5.3⁴), but we note that that paragraph is specific to data used for assumption setting, and is not quite as apparently limiting, stating that *the actuary should **consider** using data specific to the entity for which the assumptions are being made. Where such data are not available, relevant, or credible, the actuary should consider industry data, data from other comparable sources, population data, or other published data, adjusted as appropriate.* We believe that actuaries used to working with the TASs would interpret 2.1 in this way, but it may be helpful to new readers for the wider ISAP1 instruction to be included.

2.2 If data is insufficient or unreliable ...

It may not be possible or desirable to improve inadequate data by adjusting it or supplementing it. Depending on the purpose of the actuarial work and the relative magnitude of the insufficient data to the overall results and decisions to be taken, experienced practitioners might instead exercise judgement by making assumptions in the modelling, or adjusting the results, and communicating their approach and any resulting uncertainty to users. This approach is permitted in the existing Data TAS by paragraph C.5.15, but is not part of the 'boxed' text that was used as the basis for drafting TAS 100. Again 2.2 as currently drafted might be interpreted by some as not permitting these approaches.

2.4 Communications shall describe the data used in the actuarial work, ...

This provision includes a new requirement to report on the checks and controls that have been applied to data. There is no explanation in Appendix D as to why the FRC included this requirement, although we note that ISAP1 (3.2.2c) requires that any data modification, validation or deficiencies are reported. We are concerned that this requirement may cause some difficulty for actuaries (particularly those new to working with the TASs and applying materiality and proportionality judgements) in balancing this provision with the separate communication

³ <<http://www.actuaries.org.uk/sites/all/files/documents/pdf/sect67opinion.pdf>>

⁴ The consultation document refers to 3.5.3 which we assume is a typo or reference to an earlier version of ISAP1

provision on not obscuring the material with the immaterial, particularly when validation has not identified any problems with the data.

We agree with provisions 2.3 and 2.5 on Data.

Assumptions

Q.5.3 Do you agree with the proposed provisions in TAS 100 on assumptions?

As for data, we first observe that the principles below are written largely with economic and, to some extent, demographic assumptions in mind. In practice, actuaries will make assumptions about a range of matters such as membership data and regulatory context, where principles may either not be relevant or difficult to apply proportionately.

3.1 [Assumptions] shall be derived from as much relevant information as is sufficient, ...

As noted in D.2.4 of the current Pensions TAS (the text which follows the boxed principle from which 3.1 was taken), it is a matter of judgement as to what constitutes sufficient information and this will vary according to the purpose and other matters. D.2.5 and D.2.6 of the Pensions TAS also contain valuable information on how this principle might be applied, particularly if available relevant information is not judged to be sufficient. Might the approaches mentioned be combined with similar guidance on data relevance and sufficiency as another item in the *Compliance* section of TAS 100?

3.2 Assumptions used in actuarial work shall be consistent with each other.

This might be interpreted by some to require that even apparently unrelated assumptions should somehow be tested for consistency (for example proportions married against the level of future inflation). It may be worth expanding this principle to clarify that it means related assumptions in modelling for a specific purpose, or a single assumption across a suite of models (as in C.4.22 to C.4.26 of the Modelling TAS).

3.4 ... Communications shall include a comparison ... with those used in any relevant previous work, ...

The requirement to provide comparisons in the Reporting TAS (C.5.17) does not refer to any relevant previous work, but a report (singular) which has *previously been provided for a similar purpose*. We believe that the existing principle is clearer in expressing its intent, assuming this is unchanged in TAS 100. We note further that C.5.18 of TAS R explains that the similarity of purpose is a matter of judgement and relevant considerations, but is not included in TAS 100. We think *any relevant previous work* may be interpreted to cover a wide range of relevant types of work, and a long look back in time at multiple previous exercises.

3.5 Communications shall describe the relationship of any assumptions which are not neutral to neutral assumptions.

This pre-supposes that all assumptions are financial or demographic. There may be assumptions that relate to, for example, data or regulatory context where the concept of neutrality is not meaningful. A definition of assumptions may be needed in the glossary. It would also be desirable to limit this to material assumptions. Again this issue arises because the draft TAS100 principle has been removed from its current context of the Modelling TAS and the subsequent explanations in TAS M, paragraphs C.5.4 to C.5.7.

3.6 ... Communications shall state whether any assumptions set by a third party are not reasonable ... and provide an indication of their impact ...

We agree that if a client proposes an assumption that an actuary considers to be unreasonable for the purpose of work they are involved in, the actuary should speak up in some way. It should be noted, however, that the third party may have already received actuarial advice (which may have been stated to be TAS-compliant) or the actuary may not be aware of all the facts and context behind a client's instruction to use a specified assumption. Should TAS100 directly reproduce the ISAP requirement, or include something broadly equivalent that doesn't impose a rule that another party's judgement be criticised without further investigation and irrespective of the possibility of genuine differences in opinion or judgement? At the extreme, this could be regarded as a breach of

the principle in the Actuaries' Code (1.1) that requires all IFoA members to *show respect for others in the way they conduct themselves in their professional lives*. We note that ISAP1 itself offers alternatives to the requirement to state assumptions are not reasonable in this scenario (see ISAP1, paragraph 2.8.2b).

The corresponding Pensions TAS requirement (D.2.7) only requires that any opinion included in a communication should address the appropriateness of assumptions: it allows the actuary the ability to carry out work using assumptions that might not be within their personal judgement of what they consider reasonable. The Actuaries' Code (4.1) requires them to speak up if they think that using the assumptions would be *unlawful, unethical or improper*. We suggest that the current Pensions TAS wording, together with the Actuaries' Code, provide consistency with the full ISAP1 requirements.

Modelling

Q5.4 Do you agree with the proposed provisions in TAS 100 on modelling?

We agree with provisions 4.1, 4.2, 4.3 and 4.5.

4.4 Communications shall include and explanation of any changes to the models used ...

Whilst we understand why it might be appropriate to transfer the corresponding principle from the specific Insurance and Pensions TASs to the generic TAS100, we think it is confusing for the term 'models' to be used in place of measures, methods and assumptions. For many actuaries (and non-actuaries), the term model will more intuitively mean a specific and discrete branded tool or spreadsheet used to complete an actuarial calculation. The definition of *model* in the TASs is necessarily more wide-ranging and abstract but probably not well known. Readers of the standard with the intuitive meaning of model in mind may interpret this provision to mean that changes in systems should be reported, or even just changes in versions of systems or updates to spreadsheet formulae. We do not believe that this is the intention of this principle. It may be better to either specify that it is changes to the underlying modelling approach or *method* (for example deterministic vs stochastic, discounted cashflow vs actuarial factors) that are relevant, or perhaps just retain the wording in the existing specific TASs. If the extension to 'models' is deliberate, it may be helpful to use the *specification, implementation and realisation* terminology to help actuaries judge why the FRC has extended the application of this principle.

Communication

Q5.5 Do you agree with the proposed provisions in TAS 100 on communications?

5.1 Communications shall state the purpose of the work, its users and who commissioned the actuarial work.

We agree with this principle, and note that it may be more important if it allows actuaries to deal with any uncertainty if the existing TAS 100 definitions of users and communications are retained (see our general comments for section 5 of the consultation paper).

5.2 Communications shall include the results of the actuarial work and the sensitivity of the results to variations in key assumptions.

We note that the requirement for sensitivity calculations has been added to align with ISAP1 but we believe that, where they are material to the users of the work and a proportionate way of communicating the nature and extent of uncertainty, they should be included to comply with 5.7 of TAS 100 (and, currently, the corresponding principle in TAS R).

(We agree with provision 5.3.)

5.4 Communications shall include a comparison of results of calculations ...

This principle provides another example of a potential unintended consequence, due to the exclusion of the subsequent unboxed test in the existing standard (TAS R, paragraphs C.5.17 to C.5.19). In particular, C.5.18 emphasises the need to consider both the entities being reported on and the users of the report, whereas 5.4 of

TAS 100 in isolation might be interpreted to suggest that reports to the same user, for the same purpose, but about different entities should still include comparisons and explanations.

(We agree with provision 5.5, noting a similar issue to 5.4 for the comparison requirement.)

5.6 Communications shall describe any margins for adverse deviations allowed for in actuarial work.

It may be confusing for users to have to consider both the concepts of neutrality and margins for adverse deviations. Consistency with ISAP can already be demonstrated by a combination of the requirement to describe measures and any changes to them (provision 5.5) and non-neutral assumptions (3.5).

5.7 Communications shall indicate the nature and extent of any material uncertainty, ...

We believe that the relevant unboxed text in TAS R — in this case paragraphs C.5.3, 5.4, 5.6 and 5.7 — provides significant help in clarifying what this provision is intended to achieve and how actuaries might approach the work.

(We agree with provisions 5.8.)

5.9 If a person responsible for a communication becomes aware ... of that communication not being understood by any user ...

This provision could become an onerous one to comply with if there is any unintended widening of the definition of users: see our preamble to the section 5 responses.

[We note that in TAS R this principle applied to individual *reports*, but that the *Aggregation* provision in TAS 100 means that this no longer applies to individual *communications*. This may, indeed, be a more appropriate requirement, but highlight it to ensure it was intentional on the FRC's part. A similar question might also be asked about provisions 5.1, 5.3 and 5.10]

5.10 Communications shall not include information that is not material if it obscures material actuarial information.

We agree, although we reiterate our concern that the new requirements in TAS 100 to disclose material judgements, data checks and controls and to provide sensitivity analyses all need to be weighed against this principle.

Q5.6 Do you have any comments on the application of TAS 100?

We agree with the approach described.

Q5.7 Do you agree that a compliance statement should be required?

We agree that a brief compliance statement should be included but do have a related concern. Whilst the Disclosure principle in the Compliance section states that (only) material departures need be disclosed, the judgement that a principle was immaterial may itself be a material one. This might be interpreted as effectively requiring all departures from the TASs to be disclosed (creating another potential conflict with 5.10 of TAS 100). It may be helpful to include a statement that judgements that principles are not material are not expected to be reported unless, exceptionally, the actuary believes it necessary or, perhaps, the user has requested it.

Q5.8 Do you agree with the proposed approach on guidance material?

We agree subject to the TAS 100 being sufficiently clear in its own right. It would be useful to expand the examples with less clear-cut scenarios to aid consistency of interpretation of the standard amongst actuaries.

Q5.9 Do you agree with the proposal to include defined terms in a separate glossary?

The glossary is helpful, but as hinted at previously, perhaps the definition of *user* should also be included in the introduction to the standard, alongside the definition of actuarial work.

Q5.10 Do you consider the definitions of the terms in the glossary are clear?

Please see previous comments on the definition of *actuarial work*.

Does *to document* really need a separate definition from that implied by the definition of *documentation*?

The definition of *entity* suggests that it is the subject of the actuarial work whereas the Framework uses entity to include employers (e.g. 4.5, 4.11). This should be clarified.

Measure and *method* are terms that caused confusion in the past (actuarial methods are typically *measures*) and this may be another example where previous material might be helpful to new TAS readers.

Neutral: see earlier comments about adverse deviation.

The only place that the terms *specification*, *implementation* and *realisation* are now used is in the definition of *model*. This may seem odd to new readers of the TASs, and the need, where proportionate, to consider these three stages when documenting and checking models may be lost on those that have never used TAS M.

Q5.11 Do you have any other comments on the exposure draft of TAS 100?

No.

Technical Actuarial Standards for specified work

Q6.1 What areas of work specified in scope of the current Specific TASs do you consider should not be subject to more detailed actuarial standards?

Pensions TAS

Given that the calculations required for directors' remuneration disclosures in respect of defined benefit pensions (C.1.27) no longer involve actuarial work, we suggest that this can be removed from the scope of any replacement. Otherwise we believe the work currently identified as in scope should continue to be subject to the actuarial standards.

Transformations TAS (TAS T)

We believe that all the work that meets the definition of a Pensions Transformation should continue to fall with the scope of a specialist TAS. The FRC will doubtless recall that the feedback from actuaries prior to implementation of TAS T was that the pensions-related elements of the Transformations should be separated from the insurance elements, and integrated with the existing Pensions TAS. This appears to be the intention of the FRC based on the proposed structure (3.18 & 3.19 of the consultation document), but we believe it is worth re-stating our preference for this to happen.

Q6.2 What work which is not currently in the scope of the Specific TASs do you consider should be subject to the more detailed standards?

We suggest that the following areas of actuarial pensions work might be suitable for inclusion in the scope of specific TASs:

- Asset Liability Modelling and similar work to support pension scheme investment decisions (such as buy-ins, LDI and longevity-hedging) and integrated funding and investment advice for actuaries and sponsors;
- Expert witness work in relation to occupational pension schemes;
- Advice in relation to the use of special purpose vehicles (asset-backed contributions);
- Various aspects of public sector pension scheme advice (for both funded and unfunded schemes), including, for example, comparability certificates, Fair Deal certification, bonds and contribution rate calculations for participating employers; and

- Advice in relation to the new pension freedoms (recognising that it is not yet clear exactly what role actuaries might play that is not already covered by requirements for advice on funding, transfer value assumptions etc.).

Q6.3 Do you agree with the proposed structure of the TASs?

We agree with the proposed structure. As with the current TASs, actuarial employers may choose to reorganise/collate the relevant principles for certain work into the sort of standards considered in 6.10 for internal training or documentation purposes.

Q6.4 Do you have any other comments on the proposals for technical actuarial standards in section 6?

Both the content in 6.13-6.14 and order specified in 6.13 seem reasonable.

Implementation

Q7.1 Do you have any comments on the proposed implementation of the new framework in Section 7?

See response to Q7.2 below.

Q7.2 Are the proposed interim arrangements clear?

The timetable seems unnecessarily complex and a recipe for confusion, wasted effort and cost in relation to both training and the delivery of client work in the transition period. For example, the proposals would require non-statutory funding advice given to trustees and sponsors in 2016 (i.e. not given as part of a formal triennial valuation) to comply with two different frameworks. In practice, the two sets of advice might not look that different, but there would be tangible costs of developing and monitoring the two approaches, notwithstanding the fact that conflict considerations would generally mean different teams or firms would be involved. Individual actuaries with both trustee and corporate appointments would still have to do work to two different sets of standards.

We suggest that either the extension of the scope of the TASs to all actuarial work be delayed until the full set of replacement standards are effective, or, if there is unavoidable urgency to apply some standards to all actuarial work, that it be left to individual actuaries to make a reasoned judgement as to whether to apply the existing framework or the new one to such further work. Where the work is genuinely 'new' to the TASs, for example actuaries providing ERM services to banking clients, it will make sense to adopt TAS100 ahead of any replacement specific standards. Where the extension of scope is effectively to bring further users of actuarial work into scope, e.g. the extension of non-statutory funding advice from pension scheme trustees to also include sponsors, then it may be easier for actuaries who are familiar with the existing framework (i.e. the three generic TASs and relevant specific TASs) to continue to apply them for all actuarial work until the whole replacement package of new standards is available.

Q8.1 Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?

In principle, as a replacement for the three generic TASs, we agree. In practice, because of the issues identified in our response, we think there will be some additional costs that are disproportionate to the benefit to users. There remains a belief that actuaries had a tendency to 'over-interpret' the generic standards in the early days of the TASs. The new principles are likely to generate the same reaction, no matter what messages or guidance around materiality and proportionality are put alongside them. Many actuaries will

- include more matters of judgement than users need to know about;

- comment at greater length on the data checks and controls than users wish (for many users the preference would be to have no comment at all); and
- provide sensitivities where they in no way might aid the decisions made by users.

Actuaries will not 'over-comply' because they do not understand the needs of their clients, or the issues of materiality and proportionality. They will do so because they are fearful that hindsight will be harsh in judging the absence of these matters in their communications, or, more likely, the un-anticipatable failure of proportionate content to address an underlying problem that causes a subsequent dispute. It will be safer to address everything potentially relevant in the advice given at the time, than much later to attempt to retrospectively justify a judgement to exclude an issue from reporting, when hindsight has shown that specific issue now to appear very material. This may cause a very significant shift in the burden of proof, which currently only requires an actuary to demonstrate that they were not negligent in the way they exercised judgement, rather than the specific outcome.

At this point, there is little in the public domain on how the IFoA disciplinary process will treat what is retrospectively judged to be a failure to comply with the TASs, although we understand that there are such cases underway. They may have a significant influence on how actuaries view these particular additions to the standards, which appear to be a step in the direction of rules rather than principles.

Q8.2 Do you have any comments on our analysis of the impact of the changes set out in section 8?

Whilst we recognise the rationale set out in 8.2 to 8.7, and support the aims listed in 8.8, we do have some concerns that improving the reliability of actuarial advice will not, in isolation, produce the intended benefits to the public interest. This will only happen if there are some corresponding behavioural changes amongst the users of this information, and perhaps some incentive or compulsion for them to both commission work from actuaries and pay attention to the less palatable conclusions that work may suggest. The FRC indicates that it believes that it is more likely that other regulators and contracting parties will require work to comply with TAS 100 than with the existing TASs (8.13). We suggest that some evidence of this would be reassuring, perhaps in the form of other regulators committing to require TAS100 compliance for actuarial work delivered by non-actuaries in their respective ambits. This commitment should include a timescale, so that actuaries can at least point to similar standards applying whoever does the work, within a short period of TAS100 first coming into force.

Enquiries

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